Distr.
GENERAL

ID/GC.5/12/Rev.1
28 September 1993

ORIGINAL: ENGLISH

United Nations Industrial Development Organization

GENERAL CONFERENCE

Fifth session
Yaoundé, 6-10 December 1993
Item 8 (c) of the provisional agenda

PRIORITY AREAS IN THE MEDIUM-TERM PLAN, 1992-1997: INDUSTRIAL REHABILITATION

Revised UNIDO programme for industrial rehabilitation and modernization

Submitted by the Director-General

Summary

Proposes a revised UNIDO programme for rehabilitation and modernization that includes the aspect of privatization and ensures that the main thrust is geared towards the developing countries, as requested in Board decision IDB.11/Dec.2.

CONTENTS

		Paragraphs	Page
Introduction		1	1
Chapter			
I.	BACKGROUND	2 - 22	1
II.	DEVELOPMENT OBJECTIVE OF THE PROGRAMME	23	5
III.	PRIORITIES AND TARGET GROUPS OF THE PROGRAMME	24 - 25	5
IV.	PROGRAMME OBJECTIVES, OUTPUTS AND ACTIVITIES	26	6
V.	IMPLEMENTATION ARRANGEMENTS	27 - 29	9
VI.	ACTION REQUIRED OF THE CONFERENCE	30	10

Introduction

1. The present report is submitted in response to Board decision IDB.9/Dec.2 which requested the Director-General to submit to the policy-making organs of UNIDO, for their consideration, UNIDO's substantive programme on industrial rehabilitation in order to complete the programming exercise of the medium-term plan, 1992-1997, on its five priority areas (human resource development, development and transfer of technology, industrial rehabilitation, small- and medium-scale industries, and environment and energy). The report is also submitted in response to Board decision IDB.11/Dec.2 that subsequently requested the Director-General to further elaborate his proposed policy framework for the UNIDO programme for industrial rehabilitation and modernization with a view to: (i) assuring that the main thrust of the policy framework is geared to the industrialization objectives of developing countries; (ii) including an additional subprogramme concerning privatization, in particular in the developing countries, in the field of industrial restructuring ... The mandate for the proposed rehabilitation programme also stems from United Nations General Assembly resolutions 45/196 and 46/146 on industrial development cooperation and the diversification and modernization of productive activities in developing countries.

I. BACKGROUND

2. In the 1990s, industrial rehabilitation and modernization - although more urgent in certain regions such as Africa - is a global requirement of deep concern both to Governments and the private sector of developing countries and those countries in transition. Whether due to war, famine, the failure of economic and political institutions, or mounting competitive pressures and/or the unprecedented challenges of transition from a command economy to a market-based one, the economic viability of many industrial enterprises is seriously jeopardized by their inability to respond to those pressures and challenges. This is due, among other things, to the lack of a conducive policy environment, lack of managerial and technical capabilities, and serious

V.93 88994 6150E

Distr.: 11 October 1993

shortcomings in the supporting institutions and physical infrastructure. Individual enterprises often lack not only the financial and managerial resources but also the information and/or access to properly functioning financial markets to respond in an expeditious manner.

3. The original investment project was often based on unrealistic assumptions of domestic demand growth, availability of local raw material export prospects and price and supply developments. In many instances, investments were made on the basis of project concepts that were technologically too complex to be sustained over the long term without significant foreign assistance. Also, factor prices, product and market focus, and the external environment - legal, fiscal - that were prevalent and considered favourable at the time the project was planned and implemented, will have frequently changed. Insufficient support in the form of training, other forms of industrial human resource development and auxiliary inputs also tended to drastically affect productivity. Often the critical role of management, which must have a strategic outlook for the future and upon which the efficient use of resources depends, was overlooked. In addition, macroeconomic and industrial policies, including trade and pricing policies, distorted product markets and production conditions in many countries.

4. Furthermore, the prevailing balance-of-payments crises in many developing countries have meant that their industries, which are generally highly import dependent, have been hard hit by interruptions to supplies of raw materials, replacement parts, components and other essential imported inputs. This has led to significant underutilization of production capacities and a precipitous drop in enterprise performance. In addition, the globalization of production, the movement towards trading blocs, rapid technological advances and a widespread move towards deregulation, liberalization, decentralization and privatization has meant that many developing countries are being forced to either restructure their industries or face the prospects of divestiture or liquidation. Moreover, investment rates in developing countries have fallen sharply. For example, in a sample of 30 developing countries, average total investment increased from 18 per cent of gross domestic product (GDP) in the early 1970s to a peak of 23 per cent in the period 1978 to 1982, and then declined to 18.5 per cent of GDP from 1985 to 1987. 1/

5. Public investment levels, which still play a significant role in many developing countries, have also fallen significantly. The share of public investment as a percentage of GDP has declined from approximately 10 per cent in 1980 to 8.3 per cent in 1987. 2/ The economies in transition have also experienced a significant fall in public investment levels in recent years and the level of foreign direct investment (FDI) is not yet significant in the region. Although figures for FDI are far from certain - especially for Eastern Europe - in 1992, Malaysia attracted $3.85 billion in FDI from France, Japan and the United States of America, over two and a half times the level of FDI in Hungary, the country that received almost half of all FDI to Eastern Europe excluding the former Soviet Union.

6. To kick-start economic growth, many countries will need to improve productivity and raise the overall level of investment. To this end, a growing number of countries have initiated policies to increase the level of aggregate savings. But these measures will only begin to take effect in the medium to long term. In the interim period, industrial rehabilitation in the form of more efficient utilization of existing installed productive capacities and improved productivity would be the most economical means of restoring dynamism, competitiveness and profitability to the industrial sector and overall economic growth in many countries.

7. To be successful, industrial rehabilitation must be a dynamic, forward-looking concept. The concept should be broadened beyond merely thinking in terms of benefits to individual plants - rather, it should be interpreted as securing optimal use of existing capacities and resources, through upgrading and transformation, for future general industrial growth. Industrial rehabilitation encompasses the notion of a minimum critical mass or configuration of assets, be they physical, financial or human, for efficient profitable production. 3/ For example, a ceramics factory needs as a minimum requirement: clay, a mould, a kiln, a delivery vehicle, plant buildings and skilled workers. If any one of these assets are damaged or unavailable for whatever reason, production is reduced or stopped. Under normal circumstances, maintenance and repair is scheduled and budgeted and down-times are thereby kept to a minimum, and the enterprise therefore has self-upkeep capability. What distinguishes an enterprise that is in need of rehabilitation from one that does not, is that the former suffers a prolonged failure of its self-upkeep capability so that the minimum critical mass or configuration of assets is not maintained. This can occur for many reasons, among others loss of markets or insufficient revenue - often a lack of foreign exchange - inappropriate policies, general political and economic uncertainties, or as a result of damages and losses due to war or natural disasters, especially earthquakes.

8. The concept of industrial rehabilitation should also encompass the possibility of plant closure either in entirety or in part. In such cases it is recognized that there are important social and political implications to be considered. The established interpretation of the concept of rehabilitation may block such actions because it restricts the view of decision makers to the existing industrial structure. A wider and more forward-looking regeneration concept will help all parties concerned to understand that closure may be a necessary part of an attempt to establish an industrial structure with better prospects for sustained competitiveness. Rehabilitation should thus avoid re-establishing previous conditions for inefficient production and instead establish a new basis for viable production and overall growth.

1/ G.P. Pfefferman and A. Madarassy, Trends in private investment in thirty developing countries, (Washington, D.C., International Finance Corporation Discussion Paper No. 6, 1989).

2/ Ibid.

3/ M. Jaffey and M. Tribe, Project rehabilitation in adverse environments, Avebury Publishing Ltd., Avebury, 1992.

9. Industrial rehabilitation activities cover the entire range of technical, technological, managerial, marketing, financial and industrial human resource development and training issues, as well as overall structural and policy issues at the branch, subsector, sector and macroeconomic levels. Also important in this regard are environmental considerations, energy efficiency and the employment consequences of rehabilitation. As the approach covers a wide range of issues, successful implementation requires the expeditious mobilization of financial resources from domestic entities, both public and private, and from foreign multilateral, bilateral, commercial and financial bodies. Thus, although the relevant UNIDO subprogrammes focus on assistance to individual or groups of industrial enterprises, they also provide advisory services on policy and institutional reforms and the mobilization of financial and other resources for the rehabilitation and modernization process.

10. First and foremost, actual rehabilitation presupposes a detailed diagnosis of the enterprise(s) concerned and a cost-benefit analysis of eventual rehabilitation measures in the context of a consistent, coherent and phased rehabilitation programme. Secondly, industrial rehabilitation refers to the various technical, managerial, organizational and financial measures that need to be undertaken at the enterprise level to acquire or regain a self-upkeep capability that ensures a critical mass of assets and thereby enables the enterprise to survive as a viable entity in competitive markets. Industrial restructuring and the build-up of competitiveness calls for a dynamic development process within a country's economy, facilitating the entry as well as the exit of individual enterprises and creating conditions in which, if the situation so demands, ailing companies can be shut down, non-performing assets liquidated and resources freed for new investments. Thirdly, rehabilitation should be seen to encompass improvements in the economic policy and institutional environment of an enterprise or an entire industrial subsector as preconditions for successful enterprise-level restructuring. Fourthly, rehabilitation should include privatization as an element of the overall restructuring process. Thus an integral part of successful rehabilitation is the integration of macro-industrial policy actions with enterprise-level and institutional and other supporting measures. Of necessity, such actions and measures would touch upon industrial financing, building up efficient industrial services and, in general, strengthening the overall industrial competitiveness of a country's economy.

11. Privatization is a major instrument of the restructuring process. Indeed, it has become a key component and motivating force of structural economic reforms and adjustment policies in the developing countries. While there are a variety of ways to improve the efficiency of state-owned enterprises by exposing them to competitive market pressures, privatization is often seen as the best way to ensure market discipline and instil the efficiency and dynamism into the industrial sector that has been lacking. However, there is no universal blueprint for privatization. Rather, it is an instrument that should be tailored to the specific circumstances of individual countries and the specific rehabilitation needs of the subsectors and industries concerned.

12. Revitalizing industrial enterprises will require restructuring and privatizing many existing enterprises, whether they are large or small. Experience in developing regions has shown that restructuring/rehabilitation and privatization are often linked. In some cases successful rehabilitation requires widespread privatization. State-owned enterprises can operate efficiently in economies where most enterprises are privately owned. But where most enterprises are state-owned and a competitive market system does not exist or is in its infancy, the incentives for efficient behaviour are often not strong enough.

13. However, it is important to point out that privatization is not the panacea of all ills. In a significant number of countries privatization has yet to achieve the desired results. Among other things, this has occurred because privatization has not been properly incorporated into the broader framework of industrial restructuring and overall private sector development. Also, in many developing countries, privatization will require far more than the simple transfer of state-owned property to private entrepreneurs. Successful privatization is not merely change of ownership. The ultimate goal of privatization should be increased competition and efficiency. To ensure that there are long-term efficiency gains to an economy following privatization, it is important that past monopolistic privileges are not simply transferred to new owners. This will generally require the development of a competitive market environment with supporting institutions and infrastructure: the promotion of new businesses and entrepreneurship, and the creation of an appropriate and stable legal framework conducive to such activity. The large-scale redundancies that may result from rehabilitation and/or privatization are key consideraitons that also must be addressed. Small- and medium-scale industries - new and existing - may need to be promoted more vigorously to provide an outlet for redundant workers and a major source of job creation, supplies of essential inputs and services for large-scale enterprises, and the achievement of international competitiveness and attraction of FDI.

14. Privatization in the context of rehabilitation and restructuring raises a thorny question: Should privatization precede rehabilitation or vice versa? There is no universally applicable answer to this question and the answer will depend on the country, its stage of development and the subsector or industry concerned, and most importantly, the individual enterprise in question. In many cases, some intervention will be required prior to privatization, if only to prepare enterprises for the process or keep them going long enough for a private investor to be found. In some cases, financial restructuring will be required in order to make an otherwise viable enterprise attractive to private investment. Many enterprises would be viable were it not for heavy debt-servicing requirements. It is important, therefore, not to be misled by current debt structures and losses as they can bear little relation to future performance. In countries where industries are highly vertically integrated, large monopolistic enterprises often will need to be split up, and horizontal specialization pursued prior to privatization. It is considerably more difficult to de-monopolize or split up large enterprises and introduce required internal structural changes after privatization than before it. (In splitting up large enterprises into smaller units, however, it is important that the new units are of a sufficient size to be competitive. In some countries, enterprises have been split into operational units that are too small to be viable in the face of international

competition.) On the other hand, there may be equally valid situations in which restructuring should not precede privatization. For example, private buyers may be able to be found without restructuring, and in some cases private buyers (especially foreign buyers) will have their own strategies and plans and may find that new equipment purchased and processes installed in a prior restructuring will be inappropriate for their uses and thus be of no value to them.

15. Contrary to popular perception, privatization and development of the private sector does not imply the abdication of Government in industrial development. On the contrary, privatization in the context of restructuring requires Government to play a strong and ongoing leadership role in developing a conducive environment for private sector development and also in providing essential pre- and post-privatization support. In some cases, Governments may need to develop the strategic framework to guide and prioritize the rehabilitation and privatization process. In particular, Government might be called upon to assess the industrial base and identify those enterprises to be privatized, those to be restructured and those to be liquidated, and in which order the process may be required. Governments also have a critical role to play in attracting FDI to support privatization and rehabilitation. Barriers to market entry will need to be removed and exit, where appropriate, will need to be facilitated by developing - among other things - appropriate bankruptcy laws. Foreign trade also may need to be opened. Governments also may be required to be involved in identifying the specific restructuring needs of state-owned enterprises - especially large scale enterprises - or in catalysing enterprises and external assistance to identify these needs. For this identification process, specific industrial sector and subsector analyses and strategies may need to be developed. Among other things, institutional support in the form of the development of an efficient banking and financial sector, training for government staff and private entrepreneurs in valuation techniques, the preparation and evaluation of business plans, market analyses and enterprise audits will often be essential. Training to encourage labour mobility, skills upgrading, knowledge of modern business practice and the setting up of small- and medium-scale industries and entrepreneurship development in general also will be required. At the post-privatization stage, government support, particularly training programmes and institutional support, will continue to be needed by the newly privatized enterprises. Model restructuring and other training mechanisms may have to be undertaken. Government support in the form of activities such as investment promotion forums and centralized "one-stop" offices will also be needed to attract further FDI.

16. The privatization process itself will be ongoing and will need to be monitored and re-conceptualized, where necessary. Agreements made with private investors will need to be monitored for compliance, especially in terms of employment and investment guarantees. Government and government agencies may have to impose penalties and legal proceedings for non-compliance of private sector guarantees. It is often the case that privatization has failed or not lived up to expectations because Governments have not fully understood their pivotal support and catalytic roles in the post-privatization state.

17. In many developing countries, energy and material consumption are higher than international norms, even for the given level of technology due to inefficient management, lack of conservation awareness and neglect of plant and equipment. Environmental pollution caused by ailing enterprises also has become a major issue. Many of these enterprises are characterized by a general lack of awareness of environmental considerations and neglect of environmental controls, as well as the existence of outmoded, highly-polluting technologies and a dependence on low-grade energy sources. A lack of air and water emission controls is particularly problematic and, in many developing countries, has resulted in damage to both health and physical capital. In many countries, the natural resource base is threatened.

18. The challenge for the developing countries is to take advantage of the industrial restructuring process to improve the use of the environment and energy to ensure that the technical upgrading and renewal of industry promotes clean and energy-efficient technologies. While rehabilitation and general subsector restructuring will often force enterprises to adopt such processes, this should not be taken for granted; clear and comprehensive standards should be formulated, adopted and enforced. Since privatization and foreign investment are slated to play important roles in the industrial restructuring of many developing countries, it also is very important that clear rules assigning liability, especially for past damage, are adopted. Unclear liability for past environmental damage and uncertainty over the future direction of legislation will deter private investment, especially FDI.

19. The expansion of the industrial sector as a means of accelerated economic growth has become a prominent feature of industrial policy pronouncements in developing countries. Development objectives are aimed at achieving, among other things, competitive performance in terms of cost structure, technological choices and product mix, productivity, profitability and efficiency. Increased competitive conditions call for efficient utilization of inputs through rehabilitation and modernization. In response, UNIDO has traditionally accorded high priority to industrial rehabilitation and modernization. Continuous emphasis over the years has been placed on developing a comprehensive integrated programme and approach that reflects the real needs and aspirations of developing countries. In this regard, the programme has addressed problems at the enterprise level within subsectoral, sectoral and macroeconomic contexts, mobilizing the involvement and joint implementation of many organizational units of UNIDO. Considerable attention has been devoted to the modernization of management structures, upgrading technology and facilitating technological absorption through appropriate management approaches and organizational schemes and emphasizing the acquisition of clean technologies, increasing energy efficiency and instilling increased environmental awareness. Thus, many of UNIDO's large-scale projects have dealt with the upgrading and modernization of production and management capabilities. Attention has also focused on issues of plant performance - including pollution reduction and energy efficiency and conservation and managerial improvement - such as repair and maintenance and preventive maintenance schemes as well as on computer-aided management, information systems and accountancy training. Many UNIDO projects have stressed turn-around management and modernization with assistance in strategic diagnostics, turn-around work plans and the development of viable business plans. Increased

involvement of local industrial consultancy services in rehabilitation activities is desirable to many developing countries and the UNIDO rehabilitation programme has emphasized the development of local skills, particularly the improvement of national consultancy capabilities.

20. In the framework of the programme for the Industrial Development Decade for Africa, special emphasis in UNIDO's rehabilitation work has been given to the rehabilitation needs of the African manufacturing industry. Assistance has included a series of diagnostic surveys of selected African countries; enterprise audits to develop bankable rehabilitation plans; a variety of direct assistance measures; studies on the impact of the debt problem on African industry; and specific management and human resource development in such areas as economic and financial analysis and marketing. Given the importance of these subsectors, particular attention also has been paid to agro-industries and skins, leather and leather products.

21. Since 1990, the UNIDO rehabilitation programme has given increased emphasis to the commercialization of industry, direct assistance to the private sector, and the transfer of commercially dedicated management techniques such as design for manufacture, total quality control, manufacturing resource planning, group technology and value engineering. In addition, the rehabilitation programme has been refocused in light of recent global, political and economic changes that have led to the need for substantial assistance in restructuring and privatizing state-owned industry. To this end, UNIDO has provided policy, institutional and enterprise-level support to a number of countries including Albania, Bhutan, Cyprus, Ecuador, Ethiopia, Guyana, Malaysia, Papua New Guinea, Peru, Poland, Sudan, Turkey and Uzbekistan. This assistance has ranged from undertaking studies and research in support of privatization, conducting expert group meetings and workshops on privatization, forming networks on privatization to disseminate information and experiences of privatization, providing subsector specialists and training in privatization techniques and supporting requirements, preparation of business plans, and assistance for specific enterprise privatizations. There has also been renewed emphasis on the rationalization of manufacturing operations, energy efficiency, adoption of cleaner technologies and the development of commercially viable business plans to enable enterprises to successfully face the existing and emerging challenges of the transition to market-based competitive economies.

22. Recently, the programme has launched an innovative approach - exemplified by a successful major restructuring project in Poland funded by the United Kingdom of Great Britain and Northern Ireland Know-How Fund - in response to the current sweeping changes in the global economy. In this approach, UNIDO offers an integrated programme of assistance to: (a) address immediate restructuring issues and help enterprises remain operational in the short run; (b) develop viable business plans and upgrade managerial and technical capabilities to assist and implement rehabilitation/business plans; and (c) to attract joint venture partners.

II. DEVELOPMENT OBJECTIVE OF THE PROGRAMME

23. The development objective of the proposed programme is to enhance the economic and technical performance and viability of industrial enterprises, thereby increasing their competitive strength and regenerating industrial growth in the recipient countries.

III. PRIORITIES AND TARGET GROUPS OF THE PROGRAMME

24. The priorities of the programme and respective target groups are:

Priority	Target groups
(a) Strengthening national capabilities in order to identify, assess, formulate and implement programmes and policies that meet local rehabilitation and modernization requirements at the industrial enterprise and sectoral levels	Industry (public, private individual enterprises), legislative and planning organs in Governments of recipient countries, industry sector or subsectoral associations, training and research institutions, industrial services entities
(b) Support to countries in designing and implementing appropriate industrial policy measures at the enterprise, subsectoral and sectoral (national) levels and in drawing up appropriate financial, economic and technical packages for rehabilitating, privatizing and modernizing their industries and industrial enterprises	As above
(c) Provision of coordinated international support to implement the rehabilitation of enterprises, drawing on engineering, design and other technical services (including areas as diverse as quality control, packaging and maintenance, cleaner and energy-efficient technologies), management development, investment analyses, industrial human resource development, and negotiation and procurement services	As above
(d) Promotion of the mobilization of financial resources for industrial rehabilitation and modernization	In addition to all the above, development finance institutions in both developing and developed countries

25. The guiding principle governing the rehabilitation programme of UNIDO is the pursuance of an integrated, multidisciplinary approach - involving all three substantive major programmes in UNIDO: Industrial Operations, Programme and Project Development and Industrial Promotion, Consultations and Technology - in close cooperation with the local actors and other relevant international agencies such as the World Bank and the regional development banks.

IV. PROGRAMME OBJECTIVES, OUTPUTS AND ACTIVITIES

26. The proposed UNIDO rehabilitation programme addresses the above priorities (a) to (d) and its subprogrammes relate to the following:

Subprogramme I: Assistance to industrial enterprises in improving performance towards (re)attaining economic and technical viability (as in the Agro-Based, Chemical, Metallurgical, and Engineering Industries as well as Industrial Strategies and Policies, Institutional Infrastructure, and Industrial Management and Rehabilitation - all of which fall under the major programme, Industrial Operations).

Subprogramme II: Advisory services at the policy and institutional level in support of industrial rehabilitation and modernization (carried out mainly within the subprogramme of the major programme, Programme and Project Development: Global Issues and Policy Analysis, Regional and Country Studies, Industrial Statistics and Sectoral Surveys).

Subprogramme III: Promotion of direct investment and mobilization of financial resources for the industrial rehabilitation and modernization process (undertaken within the subprogrammes of all three major programmes such as Industrial Cooperation and Funds Mobilization; Industrial Investment; and Industrial Institutions and Services as well as Industrial Operations Support).

Subprogramme IV: Advisory services and assistance in the context of restructuring, rehabilitation, modernization and privatization of industrial enterprises (carried out mainly under the major programme Industrial Operations by Industrial Strategies and Policies, Institutional Infrastructure, Industrial Management and Rehabilitation as well as the technology subprogrammes) and in cooperation with the major programme, Programme and Project Development.

Subprogramme I: Assistance to industrial enterprises in improving performance towards (re)attaining economic and technical viability

I.1 Problem to be addressed

In many developing countries and countries with economies in transition, changes in external and internal economic conditions and emergent challenges to established industrial production structures have led to a drastically deteriorating performance of some industrial enterprises - in many cases, key enterprises. This has resulted in low capacity utilization and a growing risk of widespread financial collapse because of the linkages of key enterprises. In some instances, economic parameters and market developments as perceived at the investment stage have subsequently proved to be invalid; in other instances, drastic deregulation, disarmament or privatization programmes have forced industries to restructure completely or close down. In certain cases, the inability to coordinate and plan production and resource use in an efficient manner - arising from management shortfalls - have led to a gradual decline in enterprise profitability and economic viability. Whereas some companies cannot be salvaged and have to be liquidated, many can be revitalized through the provision of appropriate assistance and investment resources. For example, in many instances rehabilitation efforts might focus on overhauling machinery and other installations and reassessing production programmes, current capacities and technologies employed. In relatively small industrial enterprises where funds are scarce, a "repair-or-replace" exercise can be conducted for each machine or piece of equipment to determine exactly the financial outlay involved. A growing concern of many countries is the environmental pollution caused by ailing enterprises. Rehabilitation, the general subsector restructuring process, and pricing energy supplies at world market levels will often force enterprises to adopt environmentally cleaner technologies and processes. As has been UNIDO's experience in many cases, individual enterprises can do much by their own efforts towards rehabilitation. For example, in a food-processing enterprise in Zambia, UNIDO found that by simply improving process flows and reorganization of management responsibilities - issues that could be undertaken by the enterprise itself - led to a 20 per cent increase in efficiency. In other cases, enterprises require policy and institutional support from Government, industry associations, including from international sources (GC.5/14, paras. 5.124-5.134).

In many cases, enterprises need major injections of capital - especially working capital - technology transfers and technological know-how, managerial upgrading, training and other resources. These additional resources for rehabilitation are often sought from domestic and international sources. But whatever the source of these additional resources, they should be provided on an economic basis according to established market principles and not as a grant, in order not to distort market conditions and to ensure the proper commercial scrutiny of operations by the enterprise itself. In the ultimate analysis, through the revitalization and modernization of selected (key) industrial enterprises, industrial growth and employment can be generated and the dynamism of the industrial sector restored.

I.2 Objective

To improve the overall economic and technical performance of individual industrial enterprises through specific rehabilitation and modernization efforts and thus lay a solid basis for profitability, competitiveness and environmentally sustainable production.

I.3 Subprogramme focus

Oriented towards industrial enterprises with important employment and structural linkages that offer significant growth prospects.

I.4 Outputs

(a) Diagnostic reports at the enterprise level analysing, inter alia, the financial

performance, value of assets, managerial and organization systems, productivity, product quality, skill profiles, marketing, input and product mix, technology profile, production and quality control processes, environmental impact and energy consumption;

(b) Rehabilitation proposals covering, inter alia, internal restructuring and modernization programmes, raw material requirements, investment, product development, clean technology acquisitions, upgrading of skills and market research;

(c) Feasibility analyses of investment proposals;

(d) Industrial enterprises rehabilitated through comprehensive assistance programmes.

I.5 Activities

(a) Carrying out detailed performance and resource diagnoses of selected industrial enterprises in terms of financial, technological, technical, organizational, marketing and other factors affecting the competitiveness and viability of enterprises;

(b) Designing packages of rehabilitation measures for specific enterprises, including investment projects;

(c) Evaluating the profitability of investments and identifying other resources required for the rehabilitation of enterprises;

(d) Assisting in the improvement of various aspects of enterprise management and plant operation, including market research and marketing, financial control and accounting, and management information systems, as well as engineering, product development, repair and maintenance and quality control.

Subprogramme II: Advisory services at the policy and institutional level in support of industrial rehabilitation and modernization

II.1 Problem to be addressed

Declining performance and eventual bankruptcy of some industrial enterprises are inherent features of a dynamic competitive industrial development process in a country. However, such developments can also be an indication of inadequate economic or industrial policies and other shortcomings in the economic environment or the result of sudden changes in key parameters - such as the abrupt loss of input and output markets, increases in the prices of previously subsidized energy inputs to world market levels - particularly in international markets. Introducing new industrial policy measures, drawing up special structural adjustment programmes at the sectoral and subsectoral levels and building up greater resilience in industry, and developing environmental policies and standards are among the major problems that many developing countries have to address. An important component in strengthening an economy's restructuring and modernization capacity is the development of domestic consultancy and other key industrial services.

II.2 Objective

To enhance the rehabilitation of industry by conducting diagnostic analyses, as well as policy and institutional support at the subsectoral and sectoral (national) levels.

II.3 Subprogramme focus

Policies, institutional infrastructure, and current production structures at both the subsectoral and sectoral (national) levels that constitute the economic environment and competitive framework for industrial enterprises.

II.4 Outputs

(a) Analytical country reports on the industrial sector's overall competitiveness and policy framework, especially within the context of global trends, identifying subsectors in need of rehabilitation;

(b) Analyses of industrial subsector development prospects and proposals for structural adjustment programmes;

(c) Programmes for building up domestic industrial services for industrial rehabilitation including consultancy and financing;

(d) Guidelines on industrial standardization, quality control, technology development and environmental protection;

(e) Training programmes designed to upgrade skills in industrial services;

(f) Analyses of domestic human resource development capacities for rehabilitation.

II.5 Activities

(a) Based on international experience and information, conducting industrial structure and policy analyses in individual countries, encompassing the infrastructural and institutional framework, industrial competitiveness and performance and identifying critical rehabilitation needs. On that basis, formulating programmes for industrial policy reform and institutional measures in support of industrial rehabilitation and modernization;

(b) Analysing selected industrial subsectors in terms of their prospects and constraints and their specific needs for restructuring and rehabilitation, particularly in the light of threats emerging in the wake of changes in global markets;

(c) Assessing current capabilities of domestic industrial services for rehabilitation, in particular in terms of management and engineering consultancy, financing, market research and information-gathering and evaluations, and elaborating proposals for enhancing such services;

(d) Implementing technical advisory projects in requesting countries to assist in establishing and applying industrial standards, facilities and guidelines for quality control, technology acquisition and environmental protection;

(e) Designing, developing and implementing training programmes in various categories of industrial services;

(f) Assessing domestic capabilities including coverage, specialization and cost efficiency of human resource development for industrial rehabilitation and modernization on the basis of existing and dynamic comparative advantages.

Subprogramme III: Promotion of direct investment and mobilization of financial resources for training and other key inputs to the industrial rehabilitation and modernization process

III.1 Problem to be addressed

In their efforts to revitalize their industries, many countries seek resources through international cooperation in such areas as foreign direct investment, technology acquisition, management services and skills upgrading. Such resources and the financing of the services required need to be mobilized from both official sources and private entities at the regional and international levels.

III.2 Objective

To enhance international cooperation in the rehabilitation of industrial enterprises in the recipient countries through the promotion of investment, technology transfer and human resource development.

III.3 Subprogramme focus

The focus is on industrial enterprises with identified potential benefiting from international programmes of cooperation in investment promotion, technology transfer and human resource development, and also on the appropriate conduits for channelling financial resources to enterprises being rehabilitated.

III.4 Outputs

(a) Joint ventures, technology agreements, management contracts, market-sharing agreements and other forms of enterprise-to-enterprise cooperation;

(b) Multilateral and bilateral financial support for rehabilitation;

(c) Acquisition of plant and equipment for rehabilitation of industrial enterprises;

(d) Upgraded skills in management, technical production and supervisory functions, industrial design, marketing and other key internal or external enterprise services.

III.5 Activities

(a) Assessing prospects for international enterprise-to-enterprise cooperation and actively promoting and supporting such cooperation for the rehabilitation and/or modernization of industries (inter alia, through the Investment Promotion Service Offices of UNIDO and the Organization's technology promotion activities);

(b) On the basis of specific proposals for rehabilitating industrial enterprises, assisting in the mobilization of international finance in the form of grants or concessional credits;

(c) Advising on and assisting in the procurement and commissioning of plant and equipment for the rehabilitation of industrial enterprises;

(d) On the basis of needs assessments, designing, developing, implementing and/or supporting training programmes at the enterprise level in corporate and financial management, critical functions in plant operation and maintenance, in particular quality control and industrial design, marketing and purchasing, and other aspects relating to the rehabilitation and sustained development of industry.

Subprogramme IV: Advisory services and assistance in the context of restructuring, rehabilitation, modernization and privatization of industrial enterprises

IV.1 Problem to be addressed

A major concern in developing countries in the early stages of privatization will be interventions to rehabilitate subsectors of industry and major industrial enterprises. This will include (a) pre-privatization activities at subsectoral and enterprise levels to provide direction to the restructuring process, and prepare enterprises for privatization, as well as (b) privatization and post-privatization support to enterprises, linking them to the range of support services needed (for example, extension services, networks of information, associations/federations, local consulting groups) for them to maintain or acquire viability.

IV.2 Objective

To enhance the industrial restructuring and privatization processes in a given country by providing rehabilitation services at the subsectoral and enterprise levels.

IV.3 Subprogramme focus

Policies, institutional infrastructure, and production structures at the subsectoral levels that constitute the economic environment and institutional framework for given industrial enterprises; pre-privatization restructuring activities to ascertain the commercial viability of the enterprise, assess core assets, valuation, spinning off non-core operations at the enterprise level; and pre-privatization intervention to restructure enterprises that will not be attractive to private investors in their current state. Subprogramme IV will build on the analytical framework of subprogramme II to include restructuring guidance in the pre-privatization process, and integrate activities of subprogramme I for attainment of viability in the immediate post-privatization phase.

IV.4 Outputs

Pre-privatization:

(a) Analysis of industrial subsector development prospects and constraints;

(b) Measures to support the environment for privatization;

(c) Stocktaking exercises in terms of subsectoral capacities such as key industries, legal and organizational readiness, involved and affected parties, down-sizing and spin-off potentials;

(d) Guidance on rehabilitation measures for improved operation, prior to privatization proper;

Privatization and post-privatization:

(e) Technical cooperation for provision of integrated technical and industry-related support services to newly privatized industrial enterprises;

(f) Analyses and feedback on bottlenecks in the enabling environment and institutional framework for initiation of corrective action;

(g) Diagnostic studies to assess enterprise viability, identify core assets, obtain realistic valuation and identify restructuring work necessary to revitalize the company;

(h) Training and capacity-building programmes to strengthen the institutional framework;

(i) Training programmes designed to upgrade skills in industry.

IV.5 Activities

In the pre-privatization period:

(a) Providing assistance to develop policies that will guide privatization in the context of national industrial restructuring and assisting in the preparation of a privatization strategy and work plan;

(b) Developing a strategic framework to guide and prioritize the rehabilitation and privatization process, in particular, in developing criteria to enable decisions on which enterprises to privatize and/or rehabilitate and which to liquidate;

(c) Assisting in the formulation of comprehensive environmental and energy policies to ensure direct awareness of environmental considerations and energy conservation needs;

(d) Providing training at the institutional level to enable government staff to undertake the functions required to oversee the privatization process, the reform of the administrative machinery of Government, and the provision of external advisers for specialized areas;

(e) Carrying out diagnostic analyses at the enterprise level to prepare inventories of large-scale public or state-owned enterprises selected for privatization and for assessment and cost-benefit analysis;

(f) At the enterprise level, preparing techno-economic assessments and cost-benefit analyses of the potential viability of enterprises, training enterprise directors and managers, preparing valuations, audits and restructuring plans;

(g) Organizing investment promotion forums that play a role in providing foreign capital inflows for successful privatization as well as programmes for the development of entrepreneurship and small- and medium-scale industry programmes;

(h) Assisting in the development of privatization networks to increase the flow of information and share experience among privatization policy makers and those responsible for implementing the process;

In the privatization and post-privatization periods:

(i) Providing assistance to Governments that support newly privatized enterprises in overall financial restructuring, staff reductions and relocations, and assisting in the identification of potential markets and production enhancement needs;

(j) Assisting in initiating and facilitating enterprise access to support services and institutions such as information networks, extension services and business federations/associations;

(k) Providing support to ongoing and initiating new training programmes, such as technical skills upgrading and market-based business management;

(l) Conducting pilot restructuring of key enterprises to be used as a model for restructuring in similar industries/enterprises;

(m) Supporting FDI promotion activities such as investment forums and the development of centralized investment offices;

(n) Providing specific post-privatization assistance to individual enterprises such as training and development of restructuring stragegies, and environmentally sound and energy-efficient technology choice.

V. IMPLEMENTATION ARRANGEMENTS

27. Given the range of activities that make up industrial restructuring and enterprise revitalization, the approach adopted by UNIDO in its technical cooperation activities has to be multidisciplinary in nature and implemented via a team approach in order to gain the full benefits of UNIDO's accumulated experience and the in-house expertise available. In addition, the UNIDO programme has to address industrial decision makers at various levels: enterprise, subsector and government policy-making. The direct involvement of national decision makers and the establishment of local services thus become essential dimensions of the rehabilitation programme, as does the interlinkage with the related programmes of other international agencies and financial institutions.

28. To that end, an interdepartmental working group has been established. The working group, which comprises in-house technical cooperation staff active in the focal areas of the UNIDO programme, will coordinate, monitor, adjust and re-conceptualize, as appropriate, the UNIDO rehabilitation programme, particularly in the context of an eventual restructuring of the Organization, to maximize synergies and avoid duplication. The working group will also maintain

contacts, to the extent possible, with the programmes of other agencies to develop cooperation and promote collaborative ventures.

29. A major precondition for building up the UNIDO rehabilitation programme is the availability of adequate financial resources through United Nations sources such as the United Nations Development Programme, self-financing trust funds from individual enterprises and other resources - for example, the Industrial Development Fund as well as the UNIDO Investment Promotion Offices and investment forums. Also in that regard it may be possible that international financial institutions, private entities and commercial banks would avail themselves of UNIDO's services.

VI. ACTION REQUIRED OF THE CONFERENCE

30. The Board may wish to recommend to the General Conference for approval the proposed framework for a UNIDO programme on industrial rehabilitation and modernization as outlined in paragraphs 23 to 26 of the present document.